Ohio Farm Household
Longitudinal Study*

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Ohio Farm Household Financial Condition

This report summarizes the financial condition of about 900 Ohio farm households participating in the Ohio Farm Longitudinal Study. These households were randomly selected and are representative of all Ohio households operating farms. During telephone interviews this spring, farm operators in the sample were asked numerous questions about their households and businesses. Reported here is an analysis of their financial condition on January 1, 1988, and comparisons are made with conditions one year earlier. Asset values reflect farmers' estimated market values on January 1.

Generally, farm households experienced improved financial conditions during 1987. As reported in the last issue of this series of publications, net farm income increased slightly from 1986 to 1987. In the "average" farm household, net farm income was $7,300 in 1987, which was up from $5,900 a year earlier. In "commercial" farm households, net farm income was $32,500 in 1987 compared to $27,700 the previous year. Likewise, farm households' balance sheets, the focus of this report, showed improvements from last year to this year: (a) farm households' assets increased in value as did their equity, and (b) fewer farm households appeared to be financially stressed.

Throughout these reports, the "commercial" farm is distinguished from the "average" farm. Commercial farms include all those with annual gross sales totaling $100,000 or more. At these farm sizes, farm operators tend to be fully employed on the farm and their families receive most household income from the farm. Influenced by large numbers of part time farmers, the "average" farm operator devotes considerable time to off farm work and most of the family income comes from off farm sources.

Farm Households' Balance Sheets

On January 1, 1988 the "average" farm household valued its owned assets at $365,000, reported debt of $52,000, and estimated its net worth (equity) to be $313,000 (Table 1). Asset values were about 11 percent higher than one year earlier, reflecting modest asset appreciation and new investments (Figure 1). Debt was lower as farm operators repaid loans and were reluctant to assume new debt. The debt load for the "average" farm household was quite manageable as the average debt-to-asset ratio was a modest 14 percent.

The "commercial" farm household also was able to improve its balance sheet (Table 1). Asset values grew by 4 percent during the year, which can be accounted for by asset appreciation alone. Debt decreased substantially. Thus, it appears that few new investments were made on these farms, but rather available cash was used to repay debts. After the disastrous early 1980's with deflating land values and high interest rates, "commercial" farm operators appear to be committed to reducing financial leverage. The "commercial" farm households' debt-to-asset ratio of 23 percent was down from 28 percent one year earlier. High debt loads do not appear to be seriously jeopardizing the viability of those farm operations responsible for producing most Ohio farm products.

Farms in Financial Stress

When debt-to-asset ratios exceed 40 percent, the term "financial stress" is used. As debt loads increase from this point, debt servicing becomes increasingly difficult with current interest rates. While most farm households have modest debt loads, about one-sixth of all farms and

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about one-third of the "commercial" farms are in financial stress (Table 1 and Figure 2).

When farm households' debt-to-asset ratios exceed 70 percent, the term "severe financial stress" is applied. About 5 percent of all farms and 9 percent of "commercial" farms are in this category, and their financial future may be in jeopardy unless their situations can be changed with the help of asset appreciation, lower interest rates, off-farm income, or outside equity capital.

Return on Assets

Total returns to capital consist of two components: operating returns and changes in asset values. Over the 1948-84 period, the average total return to capital invested in farm real estate was 10.6 percent annually. Over this period, about half of the total returns were operating returns and the other half were from appreciation in real estate values.

Ohio farm households operating returns for 1986 and 1987, labeled "return on assets," are depicted in Figure 3. Note that only operating returns are included; asset appreciation has been omitted. These returns are computed by subtracting a charge for unpaid labor and management from net farm income. Then, interest paid on debt is added, and the result is divided by the value of farm assets.

The "commercial" farm realized a 5.8 percent return on assets in 1987, while the "average" farm realized a slightly negative return (Table 1). In short, the commercial farm realized about 6 percent on its operation; asset appreciation probably accounted for another 4 to 5 percent; thus, total returns to capital approached 10-11 percent. Operators of smaller farms received little, if any, return to their capital. Essentially, they traded off a return to their capital for the amenities of living on a farm.

Summary

The financial health of Ohio farm households improved during 1987. Asset values rose, debt was reduced, fewer farms appear to be in financial stress. Operating returns provided a 5.8 percent return on assets for the "commercial" farm, while the "average" farm received a slightly negative return on assets.

Table 1. Measures of Ohio Farm Household Financial Condition, January 1.

	All Farms ("Average" Farms)		Farms with $100,000 or More in Sales ("Commercial" Farms)	
	1987	1988	1987	1988
Assets ($1000/farm)	326	365	646	670
Debt ($1000/farm)	59	52	184	155
Equity ($1000/farm)	267	313	462	515
Debt/Asset (%)	18	14	28	23
Share of farms in				
-financial stress (%)[a]	18	16	35	32
-severe financial stress (%)[b]	7	5	15	9
Return on assets (%)	-3.4	-1.3	4.4	5.8

[a]Financial stress is defined as a debt-to-asset ratio of 0.4 or greater.
[b]Severe financial stress is defined as a debt-to-asset ratio of 0.7 or greater.

Figure 1.

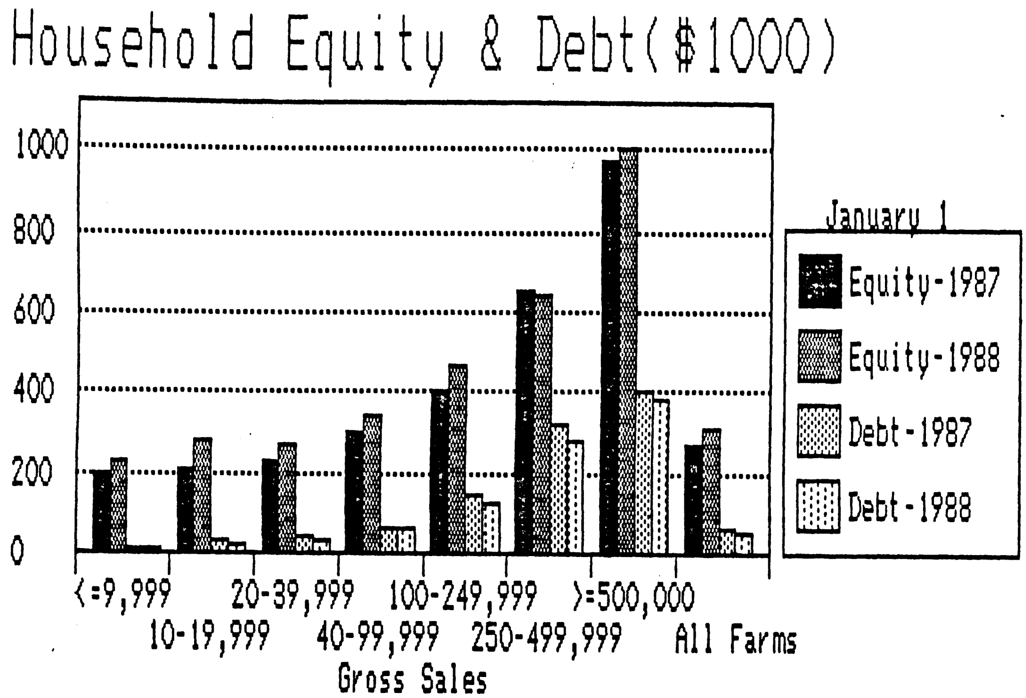

Figure 2.

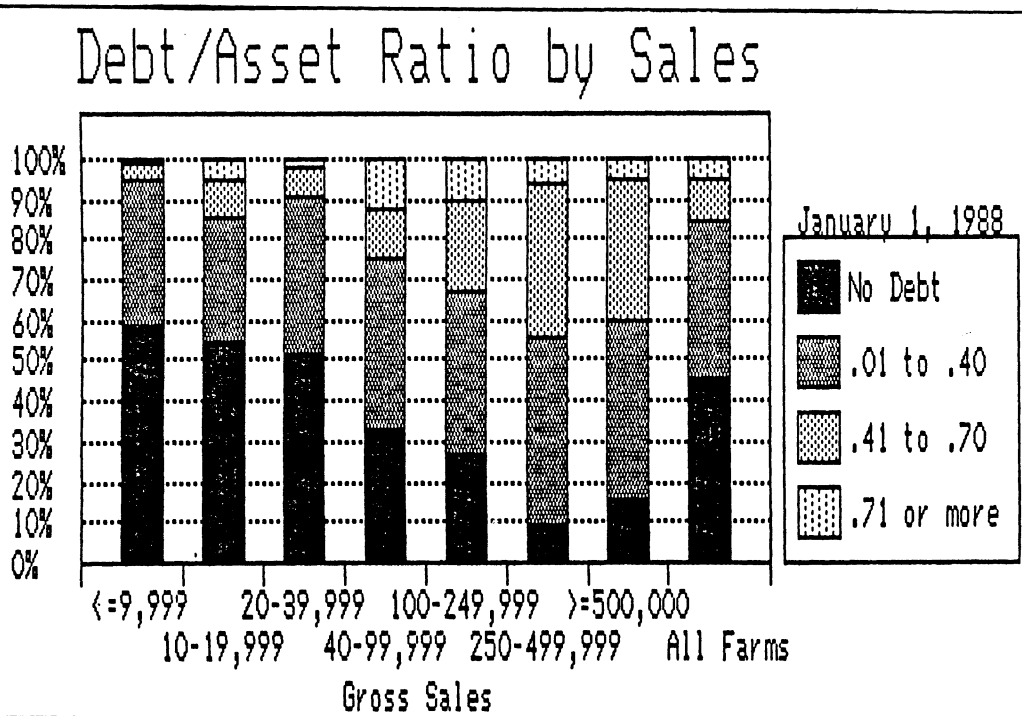

Figure 3.